

COASTAL CONSERVANCY

Staff Recommendation
December 11, 2003

COASTAL FOREST LANDS ACQUISITION

File No. 03-151
Project Manager: Karyn Gear

RECOMMENDED ACTION: Authorization to disburse up to \$10,000,000 (\$4,000,000 repayable) to The Conservation Fund to acquire the approximately 23,500-acre Coastal Forestlands, Ltd. property in the Garcia River watershed, Mendocino County.

LOCATION: Garcia River Watershed, Mendocino County (Exhibits 1 and 2)

PROGRAM CATEGORY: Resource Enhancement

EXHIBITS

Exhibit 1: Project Location

Exhibit 2: Site Map

Exhibit 3: Mendocino County Assessor Parcel Numbers

Exhibit 4: Letters of Support

RESOLUTION AND FINDINGS:

Staff recommends that the State Coastal Conservancy adopt the following resolution pursuant to Sections 31000 *et seq.* of the Public Resources Code:

“The State Coastal Conservancy hereby authorizes disbursement of an amount not to exceed ten million dollars (\$10,000,000) to The Conservation Fund (TCF) to acquire the approximately 23,500-acre Coastal Forestlands, Ltd. property in Mendocino County (Mendocino County Assessor Parcel Nos. as listed in Exhibit 3 to the accompanying staff recommendation), subject to the following conditions:

1. Prior to the disbursement of funds for acquisition TCF shall:
 - a. Submit for the review and approval of the Executive Officer of the Conservancy (“the Executive Officer”):
 - i. All relevant acquisition documents, including but not limited to an appraisal, environmental assessments, agreement of purchase and sale, escrow instructions and documents of title necessary to the acquisition of the property; and
 - ii. Evidence that TCF has obtained all funds necessary to complete the acquisition.
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- b. Enter into a memorandum of agreement or other instrument acceptable to the Executive Officer requiring periodic payment to the Conservancy of one-third of future timber revenues generated by the property in excess of reasonable costs of management. At the request of the Executive Officer, the instrument shall be recorded. Once a forest management plan has been approved consistent with condition 6, below, the Conservancy, TCF, and, if deemed appropriate by the Executive Officer, other funders of the acquisition, shall enter into a more detailed arrangement establishing the terms and conditions under which excess revenues will be distributed, and the Conservancy's priority of receipt.
2. TCF shall pay no more than fair market value for the property as established in an appraisal approved by the Executive Officer.
3. TCF shall permanently dedicate the property for habitat and resource protection, open space preservation, sustainable timber harvest and public access in a manner acceptable to the Executive Officer.
4. TCF shall acknowledge Conservancy funding by erecting and maintaining a sign on the property that has been reviewed and approved by the Executive Officer.
5. TCF shall repay the Conservancy four million dollars (\$4,000,000) by December 31, 2004.
6. TCF shall prepare and submit to the Executive Officer for approval a forest management plan for the property within a reasonable time after acquiring the property, but no later than December 31, 2005. The plan shall be updated periodically."

Staff further recommends that the Conservancy adopt the following findings:

"Based on the accompanying staff report and attached exhibits, the State Coastal Conservancy hereby finds that:

1. The proposed project is consistent with Chapter 6 of Division 21 of the Public Resources Code (Sections 31251 *et seq.*) regarding enhancement of coastal resources.
2. The proposed project is consistent with the Project Selection Criteria and Guidelines adopted by the Conservancy on January 24, 2001.
3. The Conservation Fund is a nonprofit organization existing under Section 501(c)(3) of the U.S. Internal Revenue Code, and whose purposes are consistent with Division 21 of the Public Resources Code."

PROJECT SUMMARY:

The proposed authorization would enable The Conservation Fund (TCF) to acquire approximately 23,500 acres in the Garcia River watershed for the purposes of protecting and enhancing salmonid spawning habitat, and providing a model demonstration project for sustainable forestry in the north coast region. The Conservancy has already invested substantial funds in the protection of the Garcia River Estuary. The proposed project would complement those efforts by protecting significant watershed lands that provide important habitat for salmonids.

For decades, logging has been the predominant land use throughout the north coast region. While historic logging practices have had severe impacts on coastal watersheds, it has also left a legacy

of large landholdings that until now has prevented the fragmentation of the landscape into the patchwork of small parcels that typifies much of rural California. A handful of industrial timber companies own more than 1,000,000 acres throughout the north coast region, but political and economic pressures have brought these lands to an historic crossroad. Struggling timberland owners, seeking a higher economic return, are pursuing alternative land uses, and as a consequence, rural residential development and vineyard conversions are increasingly common in the north coast. The threat of wholesale fragmentation of these large timber tracts is imminent, and once fragmented, they will never again be reassembled. This will both further reduce the viability of the timber industry in northern California, and result in the permanent loss of the significant habitat values provided by these large land tracts.

The Garcia River watershed was identified as a “high priority” conservation area in the Conservancy-funded Mendocino County Coastal Conservation Plan, completed by the Mendocino Land Trust in April 2003. The importance of the Garcia River has also been noted by The Nature Conservancy (TNC), which identified the Upper Garcia River as a “Tier 1 Portfolio Site” in its California North Coast Ecoregional Plan, and the Department of Fish and Game (DFG), which has identified the Garcia River watershed as a “refugia” watershed for coho, defined as those watersheds that have a “consistent presence of coho salmon.”

The proposed project presents both the opportunity to protect a significant portion of a north coast priority watershed, and a new model for large-scale conservation in the region. Pursuant to the proposed authorization, TCF will acquire approximately 23,500 acres of commercial timberland in the Garcia River watershed, constituting 39 percent of that watershed, with a combination of public and private funding. Once the property is acquired, TCF will work with TNC, DFG, the Conservancy, and other interested parties to:

- prepare a restoration and forest management plan;
- establish old-growth recruitment zones;
- plan sustainable timber harvests which eventually will fund the implementation of the restoration and forest management plan;
- increase the participants’ understanding of coastal forest ecology and management practices that can be applied on other forestlands in the region; and
- provide public access.

The Nature Conservancy will hold a conservation easement over the property that will contain the following essential provisions:

- Prohibit subdivision
- Prohibit housing development on the property, with the exception that if an educational center were constructed, associated housing would be permitted
- Prohibit viticultural, agricultural, or grazing uses (although controlled grazing may be allowed for ecological restoration purposes)
- Require development of a permanent ecological reserve network on at least 35 percent of the property, including oak woodlands, grasslands, and other high-conservation-value features
- Provide for public access for passive outdoor recreation, though roads would be closed during the rainy season
- Permit TNC access to the property to conduct research and habitat enhancements

- Require forest management practices that would:
 - Comply with Forest Stewardship Council and Sustainable Forestry Initiative certifications.
 - Expand no-cut riparian buffers to 200 feet from Class 1 streams (perennial streams with native fish), except where tree removal may be necessary to accelerate the development of old-growth conditions, and require management of 200-foot buffer areas adjacent to Class 2 streams (perennial streams without native fish) and 100-foot buffer areas adjacent to Class 3 streams (intermittent streams) for late-seral forest conditions.
 - Restrict harvest volumes by decade to significantly less than forest growth to restore the forest, permitting not more than 25 percent of growth for the first two decades, 60 percent for the next three decades, and 100 percent thereafter.

TCF is a national nonprofit organization that, since its inception in 1985, has protected more than 3.5 million acres across the country, and has undertaken similar forest conservation projects on the east coast. The Conservancy has worked successfully with TCF on previous conservation projects at the Lost Coast Headlands in Humboldt County. TCF is committed to managing the Coastal Forestlands property, and has staff with forest management expertise.

Initially, any revenues from timber harvest will be used to manage, maintain and enhance the property. However, in the future, as the timber volume increases, there could be excess revenues over those required for prudent property management. Thus staff has included a condition in the resolution that would require TCF to remit one-third of the surplus revenues to the Conservancy, proportional to the amount of the purchase price provided by the Conservancy.

Site Description: The approximately 23,500-acre property is located in the coastal mountain range of southwestern Mendocino County roughly centered between the Highway 1 and Highway 101 corridors. The property contains virtually all of the North Fork Garcia River, over seven miles of the mainstem Garcia River, the entire Signal and Inman Creek tributaries, and the majority of Blue Waterhole Creek West, representing more than one-third of the entire 73,223-acre watershed (Exhibit 2). In total, the property contains nearly 35 miles of Class 1 streams, 68.4 miles of Class 2 streams, and 170 miles of Class 3 streams. Elevations range from 46 to 2,290 feet.

The property is dominated by coastal redwood and Douglas fir forests that have been harvested commercially over the last century, though no harvest has occurred in the last five years. In addition to the coniferous forests, the property contains oak woodlands, riparian habitat, meadow/prairie, chaparral, and coastal scrub habitats. According to the Natural Diversity Database, 52 listed and sensitive species are expected to occur on the property, including coho and Chinook salmon and steelhead, northern spotted owl, peregrine falcon, and the Pt. Arena mountain beaver.

The Garcia River watershed was listed in 1993 under the Clean Water Act Section 303(d) List of Impaired Waterbodies for excessive sedimentation and subsequent anadromous fish habitat loss, and portions of the river are listed for excessive water temperatures. The TMDL and implementation plan was last adopted by the State Water Resources Control Board in 2000, was approved by the Office of Administrative Law in 2002, and is now in effect. Industrial timber corporations own 75 percent of the watershed, 15 percent is under agricultural use, and the remaining 10 percent is held in small private ownerships.

Project History: The Conservancy was approached by TCF in August 2003, requesting assistance in acquiring the entire 72,000-acre Coastal Forestlands, Ltd. property, which stretches across the Gualala, Garcia, and Big River watersheds. The property had been the subject of con-

troversial proposals to convert significant acreages, scattered across the ownership, to vineyards. During autumn, staff worked with TCF, DFG, WCB, Department of Forestry, and TNC staff to develop the project proposal. Through this process, it was determined that while there was merit in protecting the entire ownership, the highest priority for protection, in terms of salmonid recovery, was the portion of the property that lies in the Garcia River watershed. Due to the limited funding available, and the relatively short period that the property was available, the project was scaled down to involve only the Garcia River watershed portion of the ownership. While the proposed project does not remove the threat of vineyard conversion from the Big River and Gualala River portions of the Coastal Forestlands property, it does ensure that the lands acquired within the Garcia River watershed will be permanently protected from vineyard conversion.

The Conservancy has previously recognized the importance of the Garcia River watershed through its funding of the Garcia River watershed enhancement plan in the 1990s and subsequent implementation of best management practices recommended in the plan on properties in the lower watershed, and, most recently, its support of the Stornetta Property acquisition, which protects the Garcia River estuary.

PROJECT FINANCING:

TCF has negotiated an option to purchase the Coastal Foreslands, Ltd. property for \$18,000,000 that requires the transaction be completed by December 31, 2003. Because of the short time frame to raise the necessary funds, staff is recommending the Conservancy authorize a \$10,000,000 grant for the acquisition, \$4,000,000 repayable at 0% interest, which would be repaid by TCF with additional public and/or private funds. The terms of the repayable grant would require TCF to repay the Conservancy \$4,000,000 by December 31, 2004. The Wildlife Conservation Board (WCB) is expected to consider authorizing a \$4,000,000 grant for this project at its February 2004 meeting. If funds are not provided by WCB or other public/private funders, then TCF would sell the property, subject to a conservation easement approved by the Conservancy, and reimburse the Conservancy with the proceeds of the sale. (In such event the Conservancy would no longer receive a share of the timber harvest revenues.) The current seller will gift back \$300,000 to The Conservation Fund that will cover transaction and closing costs, and provide an initial fund for property management. The proposed funding breakdown is as follows:

Coastal Conservancy	\$6,000,000
Coastal Conservancy (repayable)	4,000,000
The Conservation Fund	2,000,000
The Nature Conservancy (pending)	3,500,000
Other private sources	<u>2,500,000</u>
Total Project Cost	\$18,000,000

The proposed source of Conservancy funds for this authorization is Proposition 50 funds appropriated to the Conservancy for the purposes of implementing projects consistent with Division 21 of the Public Resources Code.

The project also provides the potential for future revenue generation for the Conservancy. Initially, due to the low current timber volume on the property and the need to restore the forest, it is anticipated that timber harvest revenues will provide only enough income to manage the property. However, years from now, as the forest is restocked, there may be revenues in excess of

those required to manage the property, and the Conservancy would receive a share of those revenues. The amount and timing of revenues would be dependent on the rate and timing of harvest, and surplus of profits over property management costs.

CONSISTENCY WITH CONSERVANCY'S ENABLING LEGISLATION:

The proposed project is consistent with Chapter 6 of the Conservancy's enabling legislation (Public Resources Code Sections 31251 *et seq.*) in the following respects:

Pursuant to §31251 the Conservancy is authorized to award grants to nonprofit organizations for the purpose of enhancement of coastal resources that, because of natural or human-induced events, or incompatible land uses, have suffered loss of natural and scenic values. Further, grants under this chapter shall be utilized for the assembly of parcels of land within coastal resource enhancement areas to improve resource management. Consistent with this section, TCF is a non-profit organization that intends to acquire the Coastal Forestlands property to improve resource management. The property has suffered a loss of resource value due to past land use practices.

Consistent with §31251.2(a) the Conservancy may award a grant to enhance a watershed resource that is partly outside of the coastal zone. The property is located outside the coastal zone, but will benefit anadromous fish species that are dependent on these lands for a portion of their life cycle. The Conservancy has committed substantial funding to protect the Garcia River estuary, in part for its benefits to anadromous fish. The proposed project complements those efforts by protecting significant watershed lands and their associated riparian habitats that are crucial for the survival of salmonids.

Consistent with §31252, all areas proposed for resource enhancement must be identified in a certified local plan. While the property lies outside the coastal zone, the proposed project is consistent with the Mendocino County Local Coastal Program as described in the "Consistency with Local Coastal Program Policies" section below.

Pursuant to §31253, the Conservancy may provide up to the total cost of any coastal resource enhancement project, and pursuant to §31260, as part of an approved coastal resource enhancement project, the Conservancy may fund the costs of land acquisition. The Conservancy's proposed contribution to the Coastal Forestlands acquisition constitutes 33 percent of the purchase price. Private funders are expected to contribute 45 percent of the project cost, with the remaining 22 percent coming from additional public funds.

CONSISTENCY WITH CONSERVANCY'S STRATEGIC PLAN GOAL(S) & OBJECTIVE(S):

The proposed project is consistent with **Goal 4**, "acquire fee title or conservation easements on resources land that connect existing public lands to provide large(er) contiguous blocks of habitat and wildlife corridors and support regional plans or endangered species" **Objective A**, "acquire 67,000 acres of properties of special significance." The project is also consistent with **Goal 5**, **Objective A**, "Preserve, restore and enhance coastal habitats including . . . stream corridors, redwood forest, oak woodlands, Douglas fir forests and coastal prairie," and **Objective B**, "implement . . . projects to preserve and restore habitat corridors . . . from coastal habitats to inland habitat areas. The project is also consistent with **Goal 6**, **Objective A**, "Develop . . . projects that preserve and restore coastal watersheds . . ." and **Objective B**, "Complete . . . projects to improve water quality to benefit coastal resources."

CONSISTENCY WITH CONSERVANCY'S PROJECT SELECTION CRITERIA & GUIDELINES:

The proposed project is consistent with the Conservancy's Project Selection Criteria and Guidelines adopted January 24, 2001, in the following respects:

Required Criteria

1. **Promotion of the Conservancy's statutory programs and purposes:** See the "Consistency with Conservancy's Enabling Legislation" section above.
2. **Consistency with purposes of the funding source:** See the "Project Financing" section above.
3. **Support of the public:** This project has garnered much support in a short time frame, including that of The Nature Conservancy, the Department of Fish and Game, Redwood Forest Foundation, Senator Wes Chesbro, Assemblywoman Patty Berg, and others. Letters of support are included in Exhibit 4.
4. **Location:** The proposed project is located outside the coastal zone in a Mendocino County coastal watershed. The Garcia River watershed has been identified as a refugia watershed for coho salmon, a coastal resource.
5. **Need:** Conservancy support is crucial to the completion of this project. No other public funding sources are available that can provide funding in the short time frame that is required to complete this transaction.
6. **Greater-than-local interest:** Conversion of commercial timberland to other uses is an increasing issue throughout the north coast region. This project will serve as a public-private model that can be used in other portions of the state.

Additional Criteria

7. **Urgency:** The purchase option for this property expires on December 31, 2003. It is likely that if funding is not approved for this project, the property will be split into parcels, and sold off piece-meal, resulting in the loss of the timberland base, and the opportunity to undertake landscape-level conservation will be permanently lost.
8. **Resolution of more than one issue:** This project will not only serve to protect and enhance habitat for salmonids, but will also provide significant wildlife corridors for large mammals such as black bear and mountain lion, and habitat for 82 bird species including northern spotted owl and golden and bald eagles. In addition, the project will serve as a model to incorporate sustainable timber harvest into the local community, and nonprofit management of timber resources.
9. **Leverage:** The Conservancy's proposed \$6,000,000 grant contribution to this project constitutes 33 percent of the project cost. An additional state contribution of \$4,000,000, initially from a repayable Conservancy grant and expected to be repaid with funds from the Wildlife Conservation Board, will bring the total public contribution to this project to 55 percent of the acquisition cost, with the remaining 45 percent contributed by private funding sources. This high level of private funding demonstrates the significance of this project. For a complete breakdown of project funding, see the "Project Financing" section above.

10. **Conflict resolution:** Timber harvest practices have been increasingly contentious since the passage of the Forest Practices Act in 1973. The proposed project would enable the continual harvest of valuable timber resources at a sustainable rate, while providing protections over and above that which is provided for by current regulation. In addition, private nonprofit ownership of the property will maintain the property's contribution to the local tax base.
11. **Innovation:** This project demonstrates a highly innovative approach to protecting and restoring watershed lands to protect salmonid resources, while maintaining the viability of an important contributor to the local economy in perpetuity.
12. **Readiness:** The proposed acquisition would be completed by December 31, 2003.
13. **Realization of prior Conservancy goals:** See the "Project History" section above.
14. **Return to Conservancy:** See the "Project Financing" section above.
15. **Cooperation:** This project is a uniquely cooperative effort between public agencies and private nonprofit organizations to implement a project that is beneficial to both fish and wildlife species, and the local economy.

CONSISTENCY WITH LOCAL COASTAL PROGRAM POLICIES:

While the land is located outside the coastal zone, the project is consistent with several policies contained in the Mendocino County Local Coastal Plan (LCP). The LCP specifically identifies anadromous fish streams as sensitive environmental habitat, and lists the Garcia River as among the most important anadromous fish streams in the county.

Policy 3.1-7 states that "a buffer area shall be established adjacent to all environmentally sensitive habitat areas . . . to provide for a sufficient area to protect the environmentally sensitive habitat from significant degradation. The forest management plan that will be developed subsequent to the acquisition will ensure habitat buffers over and above those required by current regulation to ensure protection of the anadromous fishery resources, as will the proposed conservation easement that will be held by TNC.

Policy 3.3-7 states "The County shall support and promote reforestation and rehabilitation of understocked timberlands through . . . financial assistance available from various sources. . . ." The Coastal Forestlands property has been subject to continual commercial timber harvest over the last century, though none has occurred in the last five years, and is currently understocked. Under nonprofit ownership, forest health and structure will be improved.

The project is further consistent with Section 30243 of the Coastal Act, which states in relative part "The long-term productivity of soils and timberlands shall be protected. . . ."

COMPLIANCE WITH CEQA:

The acquisition of the Coastal Forestlands property is categorically exempt from review under the California Environmental Quality Act (CEQA) pursuant to 14 Cal. Code of Regulations Section 15325, which exempts transfer of ownership of interests in land in order to preserve open space, and §15313, which exempts transfer of ownership to preserve wildlife habitat. Upon Conservancy approval of the proposed authorization, staff will file a Notice of Exemption.